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DEPARTMENT FOR EUR/CARC

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SUBJECT: LOCAL GOVERNMENT SLOWLY AWAKENS IN WESTERN GEORGIA

REF: TBILISI 220

Classified By: Charge d'Affaires Mark X. Perry for reasons 1.4 (b) and (d).

11. (C) Summary: On August 7-9 an Embassy team traveled to Western Georgia to assess the development of local governance. Government of Autonomous Republic of Adjara Chairman Levan Varshalomidze reaffirmed his support for the USAID-funded Public Administration Reform program, which is working to professionalize his executive staff. At USAID-funded working retreats, local officials from Kutaisi, Poti, and Batumi discussed their local situations, pointing out that they needed more money to fund necessary local services. David Melua, Executive Director of the National Association of Local Authorities (NALA), said local government's relationship with the central government continues to grow, slowly. End Summary.

NALA, Local Government Organization,
and the State of Decentralization

12. (U) On 9 August, Poloff met David Melua, Executive Director of NALA. Melua briefed Poloff on NALA's history and the relationship between the local and central governments. In Georgia, there are 5 semi-independent cities (Tbilisi, Kutaisi, Rustavi, Batumi, and Poti.) These five cities have their own city councils (Sakrebulo). In the rest of the country, there are 69 municipalities, or Sakrebulo (4 are non-functioning in Abkhazia and South Ossetia), which represent all the villages and towns within their borders. Each village has a paid Trustee, who represents the village's needs before the Sakrebulo. Each Sakrebulo has a mayor, or gamgebeli, who is a professional administrator (similar to a city manager), appointed by and answering to the Sakrebulo. Each Sakrebulo also has a chairman, elected by the Sakrebulo council members. Additionally, there are nine appointed representatives of the President (Governors) who serve in an advisory capacity to the Sakrebulo and cities throughout the country. There is no residential requirement for mayors, gamgebelis, Sakrebulo chairmen, or Governors in Georgia. Consequently, carpet-bagging does take place on the local level. The Sakrebulo members were all elected in the local elections of 2006. These elections were dominated by the ruling National Movement (UNM) party. All mayors, gamgebelis, and Sakrebulo chairmen can participate in NALA.

13. (SBU) NALA is funded by dues from the Sakrebulo. Currently about one-half of NALA's members pay their dues. NALA was created in response to Georgia signing the COE's Charter on Local Self-Governance, as a professional organization was a requirement of the charter. Melua advised that in moving from 1000 districts (prior to the 2006 elections) to the 69 Sakrebulo, local government has become much more manageable. However, the Governor positions and

their authority are questionable, because the government is currently run by one party, the UNM. Most of the tension the Sakrebulo face with the central government is now taking place with the Ministry of Finance (MOF) over decentralizing the MOF's power regarding budgets. A proposed equalization formula, supported by the COE, would allocate set percentages of tax to the municipalities for their budgets. However, this is not supported by the MOF, which prefers an alternative per capita distribution formula, which Melua said does not meet the COE's standards. He said that the IMF is also concerned about the formula, as it would create a large amount of money with uncertain local control.

14. (SBU) In 2010, the local government system will change so that mayors will be elected from the Sakrebulo Council members, and then they will hire/appoint a professional city manager. At that time, a new Ministry of Local Affairs will be formalized and the Governors will report to this ministry.

The GOG will have to report to the COE on the progress of decentralization in May 2008, most likely with a presentation by Deputy Speaker Mikheil Machavariani. On the larger question of decentralization, Melua said that the growing pains between the central and local governments bode well for the future. Eventually, he said, local government will have to succeed. The only questions are what time, forum, and tools it will require.

On PAR with Varshalomidze

15. (C) In an August 8 meeting with Emboffs, Adjara Governor Levan Varshalomidze expressed strong support for ongoing USAID-funded efforts to improve public administration in

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Adjara. He also promised to personally participate in the Management Training component. Varshalomidze stressed that tourism development is a priority for the region, and he invited USAID to assist with public administration reform in his Tourism Department as well.

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USAID Promotes Self Government with MPs, Locals

16. (U) On 8 and 9 August, USAID grantee Urban Institute (UI) sponsored two local self-governance retreats. The first was held in Batumi for members of Parliament's Committee on Regional Policy, Self Government and Mountainous Regions. The other was held in nearby Kobuleti for local administrators including mayors, municipal council (Sakrebulo) members, and professional municipal employees. The MPs focused on Parliamentary priorities and the development of self-governance in the Adjara region. Working with regional Adjaran officials, they agreed to create a working group to reconcile the Organic Law on Local Self-Governments and the Adjaran Government with legislation this fall. The local administrators focused on service improvement in local government. The Embassy team presented USAID-funded computers for service improvement to 5 of the local municipalities, including Abasha, Lanchkhuti, Chokhatauri, Tsageri, and Mestia.

Municipal Government and Economic Conditions
In Kutaisi, Poti, and Batumi

17. (C) On 7 August, Poloff met new Mayor Niko Kachkachishvili, Deputy Mayor Giga Shushania, and Sakrebulo Chairman Amiran Khvadagiani of the city government in Kutaisi. Kutaisi is the second-largest city in Georgia, with a population of approximately 180,000. Kachkachishvili participated in an Open World visit to the US in 2007. The city is working with a USAID implementer to increase the

transparency of their budget process. He said that it is difficult to manage the city with the current budget. Their draft budget is due in September, but they often do not know how much money will be allocated to the city by the Ministry of Finance until February. Most city services are out-sourced and the city is not fully versed in public procurement. The city has little in the way of revenue streams (some small user fees) and lacks a financing capability (i.e. public bonds). 300 new businesses were registered in the city within the last year. The city is hoping for donors to help establish information service centers and a tourism development strategy. (Note: Local media and the NGO community are monitoring the city for signs of corruption, as two months earlier 24 local officials were arrested in Kutaisi for embezzlement of public funds (reftel). End note.) The Sakrebulo Chairman asked for USG assistance in acquiring used/depreciated garbage trucks, streetsweepers, and fire engines from U.S. cities.

18. (C) On 7 August, Poloff met Sakrebulo Chairman David Shurghaia and Deputy Chairman Gocha Tughushi in the city of Poti. Poti's population is approximately 50,000, and it is home to the largest Georgian port on the Black Sea. It lies on a sandy delta surrounded by the Rioni river, making it vulnerable to floods and a nightmare for community water and sewer systems. Although the water system will be repaired via an MCC grant, serious problems will remain. Currently all of the city's sewage runs to the sea. The landfill sits on the flood-prone banks of the river, and also sends much trash to the sea. Chairman Shurghaia described in detail a \$35 million USD plan for a seawall, reinforcing the river banks, and creating a drainage system for the city. The city is looking for donors for the project. They currently have good relations with the Governor of Samegrelo, but they do not like their tax money leaving the city to support lesser populated regions. Shurghaia sees Poti as a unique city and should be treated so, similar to Tbilisi. Poti officials would like to form a bloc with the other four independent cities (Tbilisi, Kutaisi, Rustavi, and Batumi) to represent the cities' interest before the central government. They do not currently see NALA as a strong proponent of their local interests. The city is optimistic that the coming free economic trade zone will benefit the local economy. UI recently helped the city develop an economic development plan, which now needs implementation.

19. (C) Amid rumors that Mayor Irakli Tavarthkiladze was about to be replaced, Poloff met with Batumi's Deputy Mayor, Robert Chkhaidze, August 9 to discuss self-governance in that city. (Note: The rumors proved true as Tavarthkiladze resigned August 14. Chkhaidze was elected the new mayor September 14,

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being the only nominee (of 6) presented for consideration by the city assembly. Tavarthkiladze has been appointed Georgian Ambassador to Greece. End note.) Batumi is home to a large port on the Black Sea, which continues to ship massive quantities of oil brought from Azerbaijan on rail. It sits astride the country's primary overland trucking route on the Turkish border. Armenians and Georgians alike come to enjoy the beach and sub-tropical climate. The city retains much of its pre-Soviet architecture, and it is beautifully illuminated at night. Numerous new hotels and apartments are under construction, reportedly by Kazakh and Turkish firms. Consequently, there is more visible economic activity here than in the other cities visited. Echoing Varshalomidze, Chkhaidze confirmed that tourism is the city's key economic development goal. Officials are currently looking for an investor to explore building a ski resort in the nearby Shuakhevi mountains. Chkhaidze approximated the city's population at around 115,000.

110. (C) Batumi is the heart of Adjara, and it experiences significantly more autonomy from the Ministry of Finance than the other cities and regions of Western Georgia. Due to its political structure, the city retains much of its internal

revenue and has spent a great deal of money since 2003 on infrastructure. Its budget of GEL 52 million (31.2 million USD) is three times what it was before the revolution. Unique among the cities visited, Batumi plans to arrange its own financing for infrastructure repair directly with the EBRD, without needing the central government to serve as guarantor. As with the others, Batumi's waterworks are in poor repair. MCC will fund temporary repairs, but the city signed a EUR 93 mil deal with German firm KFW to completely rehabilitate the water, sewer, and drainage systems of the city by 2015. Chkhaidze cautioned that the city is not completely autonomous. It currently receives funding from the Adjara and central governments, but he hopes the city may be financially self-sufficient in a few years. Chkhaidze said that Batumi's city government will improve once an accurate property inventory is completed. Although Batumi is an independent city (not a regional Sakrebulo, but it has its own city council), Chkhaidze championed the recent structural changes which formed the Sakrebulos into a manageable number (69 nationwide.) Still, he mentioned that it is difficult for many Adjara villages to be adequately represented in the other Adjara Sakrebulos (outside of Batumi) with only a single trustee.

Comment

11. (C) Comment: The GOG's effort to decentralize the formerly top-down, federal structure are showing some signs of success. Batumi is a case in point. With a strong potential for tourism and forward-thinking leadership, this once shabby Black Sea resort town has now become an attractive destination for Western tourists. But other parts of the country lack some of these natural qualities. A record of strong, local public administration does not exist, while a history of corruption does. All cities said that they need more money and better information regarding their budgets. Only Batumi has significant local revenue sources, and all cities acknowledged that a lack of financing options is a problem. Some were more outspoken about needing the central government to be more responsive, but few see NALA as a strong proponent toward the central Government at this time. We will need to keep encouraging the government to be responsive to the needs of local authorities, while at the same time working to ensure local authorities have the training and the checks and balances to properly carry out their duty to represent and address local concerns and needs.
End comment.
PERRY